INTERIM REPORT FOR THE SIX MONTHS ENDED **AUGUST 2, 2014**

REITMANS PENNINGTONS ADDITION ELLE RW & CO. THYME SMART SET

Reitmans
(CANADA) LIMITED

REITMANS IS CANADA'S LEADING SPECIALTY RETAILER.

WE ARE CUSTOMER DRIVEN, VALUE ORIENTED AND COMMITTED TO EXCELLENCE. BY PROMOTING INNOVATION, GROWTH, DEVELOPMENT AND TEAMWORK, WE STRIVE TO SERVE OUR CUSTOMERS THE BEST QUALITY/VALUE PROPOSITION IN THE MARKETPLACE.

TO OUR SHAREHOLDERS

Sales for the three months ended August 2, 2014 increased 1.9%, despite a net reduction of 55 stores, to $258.3 million as compared with $253.4 million for the three months ended August 3, 2013. Same store sales[1] increased 4.6%, excluding e-commerce which increased 48.3%. Sales improved in the second quarter of fiscal 2015 in most banners, as consumers responded well to rebranding efforts and new product offerings. The Smart Set banner is showing improved performance as it continues to eliminate underperforming locations and gains consumer acceptance through its repositioning and rebranding efforts. The Company's gross margin for the three months ended August 2, 2014 decreased to 59.5% from 62.4% for the three months ended August 3, 2013. The weaker Canadian dollar against the U.S. dollar negatively impacted margins, with the average rate for a U.S. dollar ranging between $1.06 and $1.10 during the three months ended August 2, 2014 as compared to $1.00 and $1.06 in the three months ended August 3, 2013. Net earnings for the three months ended August 2, 2014 were $9.6 million ($0.15 diluted earnings per share) as compared with net earnings of $10.2 million ($0.16 diluted earnings per share) for the three months ended August 3, 2013. Adjusted EBITDA[1] decreased by 22.9% to $23.6 million for the three months ended August 2, 2014 as compared with $30.6 million for the three months ended August 3, 2013. The decrease in net earnings and reduction in adjusted EBITDA were primarily attributable to the significant decline in the Canadian dollar vis-à-vis the U.S. dollar resulting in increased costs of goods sold and a significant loss on the remeasurement to fair value of U.S. dollar option contracts.

Sales for the six months ended August 2, 2014 were $464.8 million as compared with $470.3 million for the six months ended August 3, 2013, a decrease of 1.2%, impacted by a net reduction of 55 stores. Same store sales[1] increased by 0.6%, excluding e-commerce which increased 36.9%. The Company's banners showed improvement in the second quarter of fiscal 2015 after experiencing weak sales in the first quarter. The Company's e-commerce direct to consumer channel continues to show significant sales growth, although representing a small proportion of total Company sales. The Company's gross margin for the six months ended August 2, 2014 decreased to 59.5% from 63.4% for the six months ended August 3, 2013. The weaker Canadian dollar against the U.S. dollar negatively impacted margins, with the average rate for a U.S. dollar ranging between $1.06 and $1.13 during the six months ended August 2, 2014 as compared to $1.00 and $1.06 in the six months ended August 3, 2013. Net loss for the six months ended August 2, 2014 was $3.9 million ($0.06 diluted loss per share) as compared with net earnings of $7.6 million ($0.12 diluted earnings per share) for the six months ended August 3, 2013. For the six months ended August 2, 2014, adjusted EBITDA[1] was $19.5 million as compared with $41.3 million for the six months ended August 3, 2013, a decrease of $21.8 million. The net loss and reduction in adjusted EBITDA were primarily attributable to the significant decline in the Canadian dollar vis-à-vis the U.S. dollar resulting in increased costs of goods sold and a significant loss on the remeasurement to fair value of U.S. dollar option contracts. A reduction in the number of employees in both head office and field operations, in conjunction with a reduction in the number of store locations has resulted in wages and benefit savings. Additional savings have been achieved through improved cost management in non-wage areas. These initiatives aimed at reducing costs across the organization have yielded savings in both the three and six months ended August 2, 2014.

During the quarter, the Company opened 1 new store and closed 18. Accordingly, at August 2, 2014, there were 845 stores consisting of 343 Reitmans, 143 Penningtons, 102 Addition Elle, 76 RW & CO., 68 Thyme Maternity and 113 Smart Set, as compared with a total of 900 stores as at August 3, 2013. The Company also operates 21 Thyme Maternity shop-in-shop boutiques in select Babies"R"Us locations in Canada.

Sales for the month of August (the four weeks ended August 30, 2014) increased 1.8% with same store sales[1] increasing 5.0%, excluding e-commerce which increased 62.7%.

At the Board of Directors meeting held on September 11, 2014, a quarterly cash dividend (constituting eligible dividends) of $0.05 per share on all outstanding Class A non-voting and Common shares of the Company was declared, payable October 23, 2014 to shareholders of record on October 9, 2014.

On behalf of the Board of Directors,

(signed)

Jeremy H. Reitman
Chairman and Chief Executive Officer

Montreal, September 11, 2014

[1] The above text includes a reference to adjusted EBITDA, a non-GAAP financial measure. Adjusted EBITDA is defined as net earnings before income tax expense, other income, dividend income, interest income, realized gains or losses on disposal of available-for-sale financial assets, interest expense, depreciation, amortization and impairment charges. The Company also discloses same store sales, which are defined as sales generated by stores that have been continuously open during both of the periods being compared and includes e-commerce sales. The same store sales metric compares the same calendar days for each period. Same store sales is a measure widely used amongst retailers and is considered useful information for both investors and analysts. Although this key performance indicator is expressed as a ratio, it is a non-GAAP financial measure that does not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures used by other companies.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FOR THE SIX MONTHS ENDED AUGUST 2, 2014

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") of Reitmans (Canada) Limited and its subsidiaries ("Reitmans" or the "Company") should be read in conjunction with the unaudited condensed consolidated interim financial statements of Reitmans as at and for the fiscal period ended August 2, 2014 and the audited annual consolidated financial statements for the fiscal year ended February 1, 2014 and the notes thereto which are available at www.sedar.com. This MD&A is dated September 11, 2014.

All financial information contained in this MD&A and Reitmans' unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), also referred to as Generally Accepted Accounting Principles ("GAAP"), as issued by the International Accounting Standards Board ("IASB"). All monetary amounts in this report are in thousands of Canadian dollars, except per share amounts. The unaudited condensed consolidated interim financial statements and this MD&A were reviewed by Reitmans' Audit Committee and were approved by its Board of Directors on September 11, 2014.

Additional information about Reitmans is available on the Company's website at www.reitmans.ca or on the SEDAR website at www.sedar.com.

FORWARD-LOOKING STATEMENTS

All of the statements contained herein, other than statements of fact that are independently verifiable at the date hereof, are forward-looking statements. Such statements, based as they are on the current expectations of management, inherently involve numerous risks and uncertainties, known and unknown, many of which are beyond the Company's control. Such risks include but are not limited to: the impact of general economic conditions, general conditions in the retail industry, seasonality, weather and other risks included in public filings of the Company, including those described in the "Operating Risk Management" and "Financial Risk Management" sections of this MD&A. Consequently, actual future results may differ materially from the anticipated results expressed in forward-looking statements, which reflect the Company's expectations only as of the date of this MD&A. Forward-looking statements are based upon the Company's current estimates, beliefs and assumptions, which are based on management's perception of historical trends, current conditions and currently expected future developments, as well as other factors it believes are appropriate in the circumstances. Specific forward-looking statements in this MD&A include, but are not limited to, statements with respect to the Company's anticipated future results and events, future liquidity, planned capital expenditures, amount of pension plan contributions, status and impact of systems implementation, the ability of the Company to successfully implement its strategic initiatives and cost reduction and productivity improvement initiatives as well as the impact of such initiatives. The reader should not place undue reliance on any forward-looking statements included herein. These statements speak only as of the date made and the Company is under no obligation and disavows any intention to update or revise such statements as a result of any event, circumstances or otherwise, except to the extent required under applicable securities law.

NON-GAAP FINANCIAL MEASURES

In addition to discussing earnings in accordance with IFRS, this MD&A provides adjusted earnings before interest, taxes, depreciation and amortization ("adjusted EBITDA") as a non-GAAP financial measure. Adjusted EBITDA is defined as net earnings before income tax expense, other income, dividend income, interest income, realized gains or losses on disposal of available-for-sale financial assets, interest expense, depreciation, amortization and impairment charges. The following table reconciles the most comparable GAAP measure, net earnings (loss), to adjusted EBITDA. Management believes that adjusted EBITDA is an important indicator of the Company's ability to generate liquidity through operating cash flow to fund working capital needs and fund capital expenditures and uses the metric for this purpose. The exclusion of dividend and interest income eliminates the impact of revenue derived from non-operational activities. The exclusion of depreciation, amortization and impairment charges eliminates the non-cash impact. The intent of adjusted EBITDA is to provide additional useful information to investors and analysts and the measure does not have any standardized meaning under IFRS. Adjusted EBITDA should therefore not be considered in isolation or used in substitute for measures of performance prepared in accordance with IFRS. Other companies may calculate adjusted EBITDA differently. From time to time, the Company may exclude additional items if it believes doing so would result in a more effective analysis of underlying operating performance. The exclusion of certain items does not imply that they are non-recurring.

The Company uses a key performance indicator ("KPI"), same store sales, to assess store performance and sales growth. Same store sales is defined as sales generated by stores that have been continuously open during both of the periods being compared. The same store sales metric compares the same calendar days for each period. Although this KPI is expressed as a ratio, it is a non-GAAP financial measure that does not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures used by other companies. Management uses same store sales in evaluating the performance of stores and considers it useful in helping to determine what portion of new sales has come from sales growth and what portion can be attributed to the opening of new stores. Same store sales is a measure widely used amongst retailers and is considered useful information for both investors and analysts. Same store sales should therefore not be considered in isolation or used in substitute for measures of performance prepared in accordance with IFRS.

The following table reconciles net earnings (loss) to adjusted EBITDA for the three and six months ended August 2, 2014 and August 3, 2013:

(unaudited)	FOR THE THREE MONTHS ENDED AUGUST 2, 2014	FOR THE THREE MONTHS ENDED AUGUST 3, 2013	FOR THE SIX MONTHS ENDED AUGUST 2, 2014	FOR THE SIX MONTHS ENDED AUGUST 3, 2013
Net earnings (loss)	**$ 9,557**	$ 10,182	**$ (3,858)**	$ 7,596
Depreciation, amortization and net impairment losses	**12,364**	17,503	**25,831**	32,499
Dividend income	**(630)**	(868)	**(1,297)**	(1,736)
Interest income	**(181)**	(170)	**(344)**	(304)
Realized loss on disposal of available-for-sale financial assets	**37**	–	**61**	–
Impairment losses on available-for-sale financial assets	**–**	452	**10**	502
Interest expense	**103**	127	**211**	261
Income tax expense (recovery)	**2,346**	3,397	**(1,079)**	2,488
Adjusted EBITDA	**$ 23,596**	$ 30,623	**$ 19,535**	$ 41,306

CORPORATE OVERVIEW

The Company has a single reportable segment which derives its revenue from the sale of ladies' specialty apparel to consumers through its six retail banners. The Company's stores are located in malls, retail power centres, strip plazas and on major shopping streets across Canada. The Reitmans banner, operating 343 stores averaging 4,600 sq. ft., is Canada's largest women's apparel specialty chain and leading fashion brand. Reitmans has developed strong customer loyalty through superior service, insightful marketing and quality merchandise. Penningtons is a leader in the Canadian plus-size market, offering trend-right styles and affordable quality for plus-size fashion sizes 14–32. Penningtons operates 143 stores in power centres across Canada averaging 6,000 sq. ft.

Addition Elle is a fashion destination for plus-size women with a focus on fashion, quality and fit delivering the latest "must-have" trends to updated fashion essentials in an inspiring shopping environment. Addition Elle operates 102 stores averaging 6,000 sq. ft. in major malls and power centres nationwide. RW & CO. operates 76 stores averaging 4,500 sq. ft. in premium locations in major shopping malls, catering to a customer with an urban mindset by offering fashions for him and her. Thyme Maternity is a leading fashion brand for moms-to-be, offering current styles for every aspect of life, from casual to work, plus a complete line of nursing fashions and accessories. Thyme operates 68 stores averaging 2,300 sq. ft. in major malls and power centres across Canada. With 113 stores, averaging 3,400 sq. ft., Smart Set is a style destination offering the latest styles in women's fashions to mix, match and innovate from wear-to-work separates, denim, essentials and accessories.

The Company also offers e-commerce website shopping for all of its banners. These online channels offer customers convenience, selection and ease of purchase, while enhancing customer loyalty and continuing to build the brands.

In addition to its individual retail outlets, the Company operates 21 Thyme Maternity shop-in-shop boutiques in select Babies"R"Us locations in Canada. In June the Company closed its remaining Thyme Maternity shop-in-shop boutiques in the U.S.

The Company also offers consumers Penningtons plus-size apparel, under a wholesale agreement, in ten Sears stores in Canada, as well as online at sears.ca.

RETAIL BANNERS

	NUMBER OF STORES AT FEBRUARY 1, 2014	Q1 OPENINGS	Q1 CLOSINGS	Q2 OPENINGS	Q2 CLOSINGS	NUMBER OF STORES AT AUGUST 2, 2014	NUMBER OF STORES AT AUGUST 3, 2013
Reitmans	349	1	(5)	–	(2)	343	357
Penningtons	152	1	(7)	–	(3)	143	153
Addition Elle	101	1	–	1	(1)	102	103
RW & CO.	77	–	–	–	(1)	76	74
Thyme Maternity [1]	70	–	(2)	–	–	68	72
Smart Set	129	–	(5)	–	(11)	113	141
Total	**878**	**3**	**(19)**	**1**	**(18)**	**845**	**900**

[1] Excludes boutiques in Babies"R"Us shop-in-shop locations.

Thyme Maternity shop-in-shop locations:

Babies"R"Us – Canada	23	–	–	–	(2)	21	21
Babies"R"Us – U.S.	169	–	(102)	–	(67)	–	158
Babies"R"Us – Total	**192**	**–**	**(102)**	**–**	**(69)**	**21**	**179**

Store closings take place for a variety of reasons as the viability of each store and its location is constantly monitored and assessed for continuing profitability. In most cases when a store is closed, merchandise at that location is sold off in the normal course of business and any unsold merchandise remaining at the closing date is generally transferred to other stores operating under the same banner for sale in the normal course of business.

STRATEGIC INITIATIVES

The Company has undertaken a number of strategic initiatives to enhance its brands, improve productivity and profitability at all levels through system advances and foster a culture of process improvements.

Ongoing and new Company initiatives include:

INITIATIVES	STATUS
The Company continues to refine its offerings in all banners with a focus on fashion and affordability.	The Company has made significant changes in branding among its banners. The branding strategies executed in Reitmans, Addition Elle and Penningtons banners show positive customer acceptance. Smart Set branding initiatives have started to achieve desired results.
The Company is committed to continued investment in e-commerce, including improvements in customer relationship management and technology.	The Company continues to invest in e-commerce, including the deployment of mobile technology in fiscal 2015. The Company is pleased with the continued growth in e-commerce sales.
Continuation of a companywide supply chain optimization and retail enterprise initiative, internally branded as "SCORE", focused on deploying best-in-class retail applications supported by a new and improved technology platform. SCORE will enable new processes that will permit flexibility and adaptability across the merchandising and supply chain operations.	The Company completed the deployment of its warehouse management system portion of the SCORE project in fiscal 2014, which is delivering anticipated results and improved system efficiencies. Remaining phases of the SCORE project are on track for a fiscal 2016 completion.
A comprehensive review of the Company's global sourcing strategy and execution has been undertaken with a goal of reducing lead time for bringing products to market.	This initiative is progressing well with the assessment of current practices in order to evaluate opportunities. Vendor consolidation and improvements in the supply chain are ongoing.
A corporate initiative aimed at reducing costs across the Company has been introduced which includes a review of head office activities and processes targeted at improving efficiencies.	Process improvements were implemented and resulted in savings with further improvement in efficiencies anticipated as the Company continues to move forward with this project. Initiatives also included a reduction in the number of employees.

OPERATING RESULTS FOR THE THREE MONTHS ENDED AUGUST 2, 2014 ("SECOND QUARTER OF FISCAL 2015") AND COMPARISON TO OPERATING RESULTS FOR THE THREE MONTHS ENDED AUGUST 3, 2013 ("SECOND QUARTER OF FISCAL 2014")

Sales for the second quarter of fiscal 2015 were $258,326 as compared with $253,445 for the second quarter of fiscal 2014, an increase of 1.9%, despite a net reduction of 55 stores. Same store sales increased by 4.6%, excluding e-commerce which increased 48.3%. Sales improved in the second quarter of fiscal 2015 in most banners, as consumers responded well to rebranding efforts and new product offerings. The Smart Set banner is showing improved performance as it continues to eliminate underperforming locations and gains consumer acceptance through its repositioning and rebranding efforts.

Sales through the various banners' e-commerce channels continued to show strong growth. This direct to consumer channel continues to show significant sales growth, although representing a small proportion of total Company sales.

Gross profit for the second quarter of fiscal 2015 was $153,781 as compared with $158,203 for the second quarter of fiscal 2014, a decrease of 2.8%. The Company's gross margin for the second quarter of fiscal 2015 decreased to 59.5% from 62.4% for the second quarter of fiscal 2014. Foreign exchange has negatively impacted margins with the average rate for a U.S. dollar ranging between $1.06 and $1.10 during the second quarter of fiscal 2015 as compared to $1.00 and $1.06 in the second quarter of fiscal 2014.

Selling and distribution expenses for the second quarter of fiscal 2015 were $127,151 as compared with $136,095 for the second quarter of fiscal 2014, a decrease of $8,944 or 6.6%. A net decrease in stores as well as savings related to ongoing corporate initiatives contributed to a reduction in costs. Additionally, the Company recorded an expense for net impairment losses relating to underperforming stores including write-off of property, equipment and intangibles upon store closures of $892 in the second quarter of fiscal 2015 compared to $3,587 in the second quarter of fiscal 2014. Depreciation, amortization and net impairment losses for the second quarter of fiscal 2015 were $11,823, compared to $16,803 for the second quarter of fiscal 2014, the reduction reflecting the reduced level of capital expenditures.

Administrative expenses for the second quarter of fiscal 2015 were $14,436 as compared with $11,828 for the second quarter of fiscal 2014, an increase of $2,608 or 22.0%. The Company has an employee performance incentive plan that is based on operating performance targets and the related expense is recorded in relation to the attainment of such targets. The increase in administrative expenses was mainly due to an expense related to the attainment of the targets. Depreciation and amortization expense included in administrative expenses for the second quarter of fiscal 2015 were $541, compared to $700 for the second quarter of fiscal 2014.

Finance income for the second quarter of fiscal 2015 was $2,244 as compared to $3,878 for the second quarter of fiscal 2014. This decrease is largely attributable to a net change in the fair value of U.S. dollar call and put option contracts resulting in a loss of $2,395 for the second quarter of fiscal 2015, included in finance costs, as compared to a gain of $2,536 for the second quarter of fiscal 2014. Dividend income for the second quarter of fiscal 2015 of $630 was lower than $868 for the second quarter of fiscal 2014 due to a reduced level of marketable securities caused by mandatory redemptions of preferred shares. Foreign exchange gain increased to $1,433 for the second quarter of fiscal 2015 from $304 for the second quarter of fiscal 2014, largely attributable to foreign currency option contracts expiring during the second quarter of fiscal 2015 at favorable exchange rates.

Finance costs for the second quarter of fiscal 2015 were $2,535 as compared to $579 for the second quarter of fiscal 2014. The increase of $1,956 is primarily due to a $2,395 foreign exchange loss recognized for the second quarter of fiscal 2015 compared to a gain of $2,536 recognized for the second quarter of fiscal 2014, resulting from the net change in the fair value of the U.S. dollar call and put option contracts.

In the second quarter of fiscal 2015, earnings before income taxes were $11,903 as compared to $13,579 in the second quarter of fiscal 2014, a decrease of $1,676. Adjusted EBITDA in the second quarter of fiscal 2015 was $23,596 as compared with $30,623 in the second quarter of fiscal 2014, a decrease of $7,027 or 22.9%. The decrease in earnings before income taxes and reduction in adjusted EBITDA were primarily attributable to a significant decline in the Canadian dollar vis-à-vis the U.S. dollar resulting in increased costs of goods sold and a significant loss on the remeasurement to fair value of option contracts. This is despite strong sales in the second quarter of fiscal 2015 in most banners, as consumers responded well to rebranding efforts and new product offerings. Previously reported initiatives aimed at reducing costs across the organization have yielded savings. A reduction in the number of employees in both head office and field operations, in conjunction with a reduction in the number of store locations have resulted in wages and benefit savings. Additional savings have been achieved through improved cost management in non-wage areas.

Income tax expense for the second quarter of fiscal 2015 amounted to $2,346 for an effective tax rate of 19.7% as compared to $3,397 in the second quarter of fiscal 2014 for an effective tax rate of 25.0%. The reduction in the effective tax rate is primarily attributed to tax exempt investment dividend income relative to the Company's active business income as the income tax expense is based on an estimate of the earnings that will be generated in a full year. The Company's effective tax rates reflect the impact of changes in substantively enacted tax rates in various tax jurisdictions in Canada.

The Company recorded net earnings for the second quarter of fiscal 2015 of $9,557 ($0.15 diluted earnings per share) as compared with net earnings of $10,182 ($0.16 diluted earnings per share) for the second quarter of fiscal 2014.

OPERATING RESULTS FOR THE SIX MONTHS ENDED AUGUST 2, 2014 ("YEAR TO DATE FISCAL 2015") AND COMPARISON TO OPERATING RESULTS FOR THE SIX MONTHS ENDED AUGUST 3, 2013 ("YEAR TO DATE FISCAL 2014")

Sales for the year to date fiscal 2015 were $464,804 as compared with $470,306 for the year to date fiscal 2014, a decrease of 1.2%, impacted by a net reduction of 55 stores. Same store sales increased by 0.6%, excluding e-commerce which increased 36.9%. Sales for the year to date fiscal 2015 were impacted by particularly poor weather in the first quarter contributing to weak demand for spring and summer apparel. A noticeable improvement in sales for the second quarter resulted as consumers responded well to the summer fashion offerings. This is despite a reduction in the number of stores as the Company rationalizes underperforming locations.

Sales through the various banners' e-commerce channels continued to show strong growth. This direct to consumer channel continues to show significant sales growth, although representing a small proportion of total Company sales.

Gross profit for the year to date fiscal 2015 decreased 7.3% to $276,526 as compared with $298,377 for the year to date fiscal 2014, a reduction of $21,851. The Company's gross margin for the year to date fiscal 2015 decreased to 59.5% from 63.4% for the year to date fiscal 2014. Foreign exchange has negatively impacted margins with the average rate for the U.S. dollar ranging between $1.06 and $1.13 Canadian during the year to date fiscal 2015 as compared to $1.00 and $1.06 Canadian in the year to date fiscal 2014.

Selling and distribution expenses for the year to date fiscal 2015 decreased 5.7% or $15,385 to $252,681 as compared with $268,066 for the year to date fiscal 2014. A net decrease in stores as well as savings related to ongoing corporate initiatives contributed to a reduction in costs. Additionally, the Company recorded an expense for net impairment losses relating to underperforming stores including write-off of property, equipment and intangibles upon store closures of $2,459 for the year to date fiscal 2015 compared to $4,389 for the year to date fiscal 2014. This reduction is largely due to a significantly lower impairment expense due to the improved performance of the Smart Set banner in the year to date fiscal 2015 as compared to the year to date fiscal 2014. Depreciation, amortization and net impairment losses included in selling and distribution expenses for the year to date fiscal 2015 were $24,631 compared to $31,120 for the year to date fiscal 2014, the reduction reflecting the reduced level of investment in capital expenditures.

Administrative expenses for the year to date fiscal 2015 increased 5.0% or $1,201 to $25,305 compared with $24,104 for the year to date fiscal 2014. The Company has an employee performance incentive plan that is based on operating performance targets and the related expense is recorded in relation to the attainment of such targets. The increase in administrative expenses was mainly due to an expense related to the attainment of the targets, reduced by expense savings related to corporate initiatives initiated in the prior year aimed at reducing costs across the Company and a recovery of prior years' sales taxes. Depreciation, amortization and net impairment losses included in administrative expenses for the year to date fiscal 2015 was $1,200, compared to $1,379 for the year to date fiscal 2014.

Finance income for the year to date fiscal 2015 was $6,229 as compared to $4,640 for the year to date fiscal 2014. This increase of $1,589 is primarily due to a $4,588 foreign exchange gain recognized for the year to date fiscal 2015 ($1,663 gain for the year to date fiscal 2014) largely attributable to foreign currency option contracts expiring during the year to date fiscal 2015 at favorable exchange rates. Dividend income for the year to date fiscal 2015 of $1,297 was lower than $1,736 for the year to date fiscal 2014 due to a reduced level of marketable securities caused by mandatory redemptions of preferred shares.

Finance costs for the year to date fiscal 2015 were $9,706 as compared to $763 for the year to date fiscal 2014, an increase of $8,943. This increase is largely attributable to a loss of $9,424 for the year to date fiscal 2015 as compared to a gain of $937 for the year to date fiscal 2014 resulting from a decrease in the notional amount of option contracts and the impact of a change in the U.S. dollar exchange rate during the year to date fiscal 2015.

For the year to date fiscal 2015, loss before income taxes was $4,937 as compared to earnings before income taxes of $10,084 for the year to date fiscal 2014, a decrease of $15,021. Adjusted EBITDA for the year to date fiscal 2015 was $19,535 as compared with $41,306 for the year to date fiscal 2014, a decrease of $21,771. The loss before income taxes and reduction in adjusted EBITDA were primarily attributable to a significant decline in the Canadian dollar vis-à-vis the U.S. dollar resulting in increased costs of goods sold and a significant loss on the remeasurement to fair value of option contracts. This is despite strong sales, notably in the second quarter of fiscal 2015 in most banners, as consumers responded well to rebranding efforts and new product offerings. Previously reported initiatives aimed at reducing costs across the organization have yielded savings. A reduction in the number of employees in both head office and field operations, in conjunction with a reduction in the number of store locations has resulted in wages and benefit savings. Additional savings have been achieved through improved cost management in non-wage areas.

Income tax recovery for the year to date fiscal 2015 amounted to $1,079 for an effective tax rate of 21.9%. In the year to date fiscal 2014, income tax expense amounted to $2,488 for an effective tax rate of 24.7%. The reduction in the effective tax rate is primarily attributable to tax exempt dividend income relative to the Company's active business income as the income tax expense is based on an estimate of the earnings that will be generated in a full year. The Company's effective tax rates reflect the impact of changes in substantively enacted tax rates in various tax jurisdictions in Canada.

Net loss for the year to date fiscal 2015 was $3,858 ($0.06 diluted loss per share) as compared with a net earnings of $7,596 ($0.12 diluted earnings per share) for the year to date fiscal 2014.

The Company imports a majority of its merchandise purchases from foreign vendors, with lead times in some cases extending twelve months. The Company considers a variety of strategies designed to manage the cost of its continuing U.S. dollar commitments, including spot rate purchases and foreign exchange option contracts with maturities not exceeding twelve months. In the year to date fiscal 2015, the Company satisfied its U.S. dollar requirements through a combination of spot purchases and foreign exchange option contracts. The Company entered into transactions with its banks whereby it purchased call options and sold put options, both on the U.S. dollar. Purchased call options and sold put options expiring on the same date have the same strike price.

In the year to date fiscal 2015, these merchandise purchases, payable in U.S. dollars, approximated $113,927 U.S. The Company's U.S. dollar holdings, along with contracts to purchase U.S. dollars are sufficient to satisfy its projected U.S. dollar denominated merchandise purchases for the fiscal year ending January 31, 2015.

Details of the foreign currency option contracts outstanding for each of the periods listed are as follows:

AUGUST 2, 2014	AVERAGE STRIKE PRICE	NOTIONAL AMOUNT IN U.S. DOLLARS	DERIVATIVE FINANCIAL ASSET	DERIVATIVE FINANCIAL LIABILITY	NET
Call options purchased	$ 1.09	$ 160,000	$ 3,343	$ –	$ 3,343
Put options sold	$ 1.09	$ 290,000	–	(4,057)	(4,057)
			$ 3,343	$ (4,057)	$ (714)

AUGUST 3, 2013	AVERAGE STRIKE PRICE	NOTIONAL AMOUNT IN U.S. DOLLARS	DERIVATIVE FINANCIAL ASSET	DERIVATIVE FINANCIAL LIABILITY	NET
Call options purchased	$ 1.02	$ 90,000	$ 2,475	$ –	$ 2,475
Put options sold	$ 1.02	$ 160,000	–	(1,256)	(1,256)
			$ 2,475	$ (1,256)	$ 1,219

FEBRUARY 1, 2014	AVERAGE STRIKE PRICE	NOTIONAL AMOUNT IN U.S. DOLLARS	DERIVATIVE FINANCIAL ASSET	DERIVATIVE FINANCIAL LIABILITY	NET
Call options purchased	$ 1.07	$ 212,000	$ 11,775	$ –	$ 11,775
Put options sold	$ 1.07	$ 364,000	–	(3,065)	(3,065)
			$ 11,775	$ (3,065)	$ 8,710

SUMMARY OF QUARTERLY RESULTS

The table below sets forth selected consolidated financial data for the eight most recently completed quarters. This unaudited quarterly information has been prepared in accordance with IFRS. All references to "2015" are to the Company's fiscal year ending January 31, 2015, to "2014" are to the Company's fiscal year ended February 1, 2014, and to "2013" are to the Company's fiscal year ended February 2, 2013.

	SECOND QUARTER		FIRST QUARTER		FOURTH QUARTER		THIRD QUARTER	
	2015	2014	2015	2014	2014	2013[1]	2014	2013[1]
Sales	$258,326	$253,445	$206,478	$216,861	$240,677	$267,659	$249,414	$236,247
Net earnings (loss)	9,557	10,182	(13,415)	(2,586)	(2,571)	(1,145)	5,763	(29)
Earnings (loss) per share								
Basic	$ 0.15	$ 0.16	$ (0.21)	$ (0.04)	$ (0.04)	$ (0.02)	$ 0.09	$ 0.00
Diluted	0.15	0.16	(0.21)	(0.04)	(0.04)	(0.02)	0.09	0.00

[1] Quarterly results for fiscal 2013 have been adjusted to reflect the impact from the implementation of the amendments to IAS 19, *Employee Benefits*, as described in Note 3 of the February 1, 2014 audited consolidated financial statements.

Fluctuations in the above-noted quarterly financial information reflect the underlying operations of the Company as well as the impact of a number of factors including, but not limited to, the effect of the estimated loss in sales due to supply chain disruption in the third quarter of fiscal 2013 and the impact in the fourth quarter of fiscal 2014 of the decision to close the Thyme Maternity shop-in-shop boutiques in the U.S. A fifty-third week in fiscal 2013 resulted in a shift in the Company's retail calendar, impacting each of the fiscal 2014 quarters and resulting in an additional week in the fourth quarter of fiscal 2013. Financial results are also affected by seasonality and the timing of holidays. Due to seasonality the results of operations for any quarter are not necessarily indicative of the results of operations for the fiscal year.

BALANCE SHEET

Cash and cash equivalents as at August 2, 2014 amounted to $113,380 (August 3, 2013 – $76,559) as compared to $122,355 as at February 1, 2014, a decrease of 7.3%. Marketable securities as at August 2, 2014 amounted to $52,905 (August 3, 2013 – $70,432) comparable with $55,062 at February 1, 2014. Combined cash and cash equivalents and marketable securities as at August 2, 2014 were higher as compared to August 3, 2013 primarily due to a reduction in dividends paid and reduced capital expenditures.

The Company's trade and other receivables are comprised primarily of credit card sales from the last few days of the fiscal quarter, wholesale trade receivables and an outstanding receivable of $1,670 related to the sale of intellectual property rights and a trademark settlement during the fiscal year 2014. Trade and other receivables as at August 2, 2014 were $5,160 (August 3, 2013 – $3,585) or $1,262 lower than as at February 1, 2014 due to lower credit card and wholesale trade receivables. As at August 2, 2014, income taxes recoverable were $2,123 (August 3, 2013 – $5,436; February 1, 2014 – $5,656), attributable to a prior year tax recovery and instalments made in excess of estimated tax liabilities. Inventories as at August 2, 2014 were $112,455 (August 3, 2013 – $116,595) or $2,854 higher than as at February 1, 2014 reflecting the planned build-up of inventories for the fall selling season. Prepaid expenses, consisting mainly of prepaid insurance, maintenance contracts and realty and business taxes, were $27,134 as at August 2, 2014 (August 3, 2013 – $27,869) compared with $12,512 as at February 1, 2014. This increase in prepaid expenses is largely attributable to the timing of February rent and common area disbursements that were not prepaid at February 1, 2014.

The Company has invested, on a cash basis, $12,779 in additions to property, equipment and intangible assets in the year to date fiscal 2015. This is comprised of $9,241 in new store construction and existing store renovation costs and $3,538 mainly related to information technology system hardware and software enhancements. The Company embarked on a major systems development project ("SCORE") in 2010, which is in the final phases of completion. The new functionality offered by this project which spans warehousing and distribution, merchandising, operations and finance is projected for completion in fiscal 2016. Certain milestones have been successfully achieved and the project is progressing well. The technology initiatives, along with warehouse management systems improvements, will support changes and growth across all areas of the Company with improved integration, while enabling the Company to reduce the overall cost of system maintenance and upgrades. The total project is being phased in and is estimated to cost approximately $34,000 of which approximately $26,000 has been incurred to date.

Total trade and other payables were $98,405 as at August 2, 2014 (August 3, 2013 – $93,156), or $4,171 lower than as at February 1, 2014 due mainly to lower trade payables, the timing of payments for various sales and withholding taxes partially offset by higher employee incentive bonus costs related to the Company employee performance incentive plan. The Company's trade and other payables consist largely of trade payables, personnel liabilities, payables relating to premises and sales tax liabilities.

The Company entered into transactions with its banks whereby it purchased call options and sold put options, both on the U.S. dollar. These option contracts extend over a period of twelve months. Purchased call options and sold put options expiring on the same date have the same strike price. The Company has recorded a net derivative financial liability, related to foreign exchange option contracts, as at August 2, 2014 of $714 (August 3, 2013 – net derivative financial asset of $1,219) as compared to a net derivative financial asset of $8,710 as at February 1, 2014. This change in the foreign exchange option contract position is attributable to the realization of contracts in the year to date fiscal 2015 and impact of the fluctuation of the U.S. dollar on remaining contracts and new contracts.

Deferred revenue consists of unredeemed gift cards, loyalty points and awards granted under customer loyalty programs. Revenue is recognized when the gift cards, loyalty points and awards are redeemed. Deferred revenue was $15,359 as at August 2, 2014 (August 3, 2013 – $10,962) or $4,639 lower than as at February 1, 2014 due to the timing of loyalty reward program incentives combined with lower gift card liabilities.

Tenant allowances are recorded as deferred lease credits and amortized as a reduction of rent expense over the term of the related leases. As at August 2, 2014 deferred lease credits were $13,921 (August 3, 2013 – $17,374) as compared to $15,607 as at February 1, 2014.

The Company's long-term debt consists of a mortgage, which is secured by the Company's distribution centre. As at August 2, 2014 long-term debt was $6,181 (August 3, 2013 – $7,801) as compared to $7,003 as at February 1, 2014. The decrease in long-term debt is attributable to the continued repayment of the mortgage debt principal.

Pension liability as at August 2, 2014 was $18,749 (August 3, 2013 – $18,336) or $490 higher than as at February 1, 2014. The increase is due to $984 of pension expense offset by pension contributions paid of $494.

OPERATING RISK MANAGEMENT

ECONOMIC ENVIRONMENT

Economic factors that impact consumer spending patterns could deteriorate or remain unpredictable due to global, national or regional economic volatility. These factors could negatively affect the Company's revenue and margins. Inflationary trends are unpredictable and changes in the rate of inflation or deflation will affect consumer prices, which in turn could negatively affect the financial performance of the Company. The Company closely monitors economic conditions in order to react to consumer spending habits and constraints in developing both its short-term and long-term operating decisions. The Company is in a strong financial position with significant liquidity available and ample credit resources to draw upon as deemed necessary.

COMPETITIVE ENVIRONMENT

The retail apparel business in Canada is highly competitive with competitors including department stores, specialty apparel chains and independent retailers operating through both store and e-commerce channels. If the Company is ineffective in responding to consumer trends or in executing its strategic plans, its financial performance could be negatively affected. There is no effective barrier to entry into the Canadian apparel retailing marketplace by any potential competitor, foreign or domestic, as witnessed by the arrival over the past few years of a number of foreign-based competitors and additional foreign retailers continuing to expand into the Canadian marketplace. Additionally, Canadian women have a significant number of e-commerce shopping alternatives available to them on a global basis. The Company believes that it is well positioned to compete with any competitor. The Company operates multiple banners with product offerings that are diversified as each banner is directed to and focused on a different niche in the Canadian women's apparel market. Our stores, located throughout Canada, offer affordable fashions to consumers. The Company also offers an e-commerce alternative for shoppers through each of the banners' websites. The e-commerce retail landscape is highly competitive with both domestic and foreign competition. The Company has invested significantly in its e-commerce websites and social media to drive consumers to the websites and believes that it is positioned well to compete in this environment.

SEASONALITY

The Company's business is seasonal and is also subject to a number of factors which directly impact retail sales of apparel over which it has no control, namely fluctuations in weather patterns, swings in consumer confidence and buying habits and the potential of significant changes in fashion preferences.

DISTRIBUTION AND SUPPLY CHAIN

The Company depends on the efficient operation of its sole distribution centre, such that any significant disruption in the operation thereof (e.g. natural disaster, system failures, destruction or major damage by fire), could materially delay or impair its ability to replenish its stores on a timely basis causing a loss of sales, which could have a significant effect on the Company's results of operations.

INFORMATION TECHNOLOGY

The Company depends on information systems to manage its operations, including a full range of retail, financial, merchandising and inventory control, planning, forecasting, reporting and distribution systems. The Company embarked on a major systems development project in 2010, which is in the final phases of completion. The new functionality offered by this project which spans warehousing and distribution, merchandising, operations and finance is projected for completion in fiscal 2016. Any significant disruptions in the performance of distribution or any other systems could have a material adverse impact on the Company's operations and financial results.

GOVERNMENT LAWS AND REGULATION

The Company is structured in a manner that management considers to be most effective to conduct its business across Canada. The Company is therefore subject to all manner of material and adverse changes in government regulation that can take place in any one or more of these jurisdictions as they might impact income and sales, taxation, duties, quota impositions or re-impositions and other legislated or government regulated matters.

Changes to any of the laws, rules, regulations or policies (collectively, "laws") applicable to the Company's business, including income, capital, property and other taxes, and laws affecting the importation, distribution, packaging and labelling of products, could have an adverse impact on the financial or operational performance of the Company. In the course of complying with such changes, the Company could incur significant costs. Changing laws or interpretations of such laws or enhanced enforcement of existing laws could restrict the Company's operations or profitability and thereby threaten the Company's competitive position and ability to efficiently conduct business. Failure by the Company to comply with applicable laws and orders in a timely manner could subject the Company to civil or regulatory actions or proceedings, including fines, assessments, injunctions, recalls or seizures, which in turn could negatively affect the reputation, operations and financial performance of the Company.

The Company is subject to tax audits from various government and regulatory agencies on an ongoing basis. As a result, from time to time, taxing authorities may disagree with the positions and conclusions taken by the Company in its tax filings or legislation could be amended or interpretations of current legislation could change, any of which events could lead to reassessments. These reassessments could have a material impact on the Company in future periods.

MERCHANDISE SOURCING

Virtually all of the Company's merchandise is private label. On an annual basis, the Company directly imports approximately 80% of its merchandise, largely from China. In the year to date fiscal 2015, no supplier represented more than 12% of the Company's purchases (in dollars and/or units) and there are a variety of alternative sources (both domestic and international) for virtually all of the Company's merchandise. The Company has good relationships with its suppliers and has no reason to believe that it is exposed to any material risk that would prevent the Company from acquiring, distributing and/or selling merchandise on an ongoing basis.

The Company endeavours to be environmentally responsible and recognizes that the competitive pressures for economic growth and cost efficiency must be integrated with sound sustainability management, including environmental stewardship. The Company has adopted sourcing and other business practices to address the environmental concerns of its customers. The Company has established guidelines that require compliance with all applicable environmental laws and regulations. Although the Company requires its suppliers to adhere to these guidelines, there is no guarantee that these suppliers will not take actions that hurt the Company's reputation, as they are independent third parties that the Company does not control. However, if there is a lack of apparent compliance, it may lead the Company to search for alternative suppliers. This may have an adverse effect on the Company's financial results, by increasing costs and potentially causing delays in delivery.

PRIVACY AND INFORMATION SECURITY

The Company is subject to various laws regarding the protection of personal information of its customers, cardholders and employees and has adopted a Privacy Policy setting out guidelines for the handling of personal information. The Company's IT systems contain personal information of customers, cardholders and employees. Any failures or vulnerabilities in these systems or non-compliance with laws or regulations, including those in relation to personal information belonging to the Company's customers and employees, could negatively affect the reputation, operations and financial performance of the Company.

FINANCIAL RISK MANAGEMENT

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

There have been no significant changes in the Company's risk exposures during the six months ended August 2, 2014 from those described in the Company's audited annual consolidated financial statements for the year ended February 1, 2014.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

Shareholders' equity as at August 2, 2014 amounted to $415,645 or $6.44 per share (August 3, 2013 – $436,342 or $6.76 per share; February 1, 2014 – $423,431 or $6.56 per share). The Company continues to be in a strong financial position. The Company's principal sources of liquidity are its cash and cash equivalents and investments in marketable securities of $166,285 as at August 2, 2014 (August 3, 2013 – $146,991; February 1, 2014 – $177,417). Cash is conservatively invested mainly in short-term deposits with major Canadian financial institutions. The Company closely monitors its risk with respect to short-term cash investments. The Company has unsecured borrowing and working capital credit facilities available up to an amount of $125,000 or its U.S. dollar equivalent. As at August 2, 2014, $32,477 (August 3, 2013 – $39,732; February 1, 2014 – $30,270) of the operating lines of credit were committed for documentary and standby letters of credit. These credit facilities are used principally for U.S. dollar letters of credit to satisfy international third-party vendors which require such backing before confirming purchase orders issued by the Company and to support U.S. dollar foreign exchange forward contract purchases. The Company rarely uses such credit facilities for other purposes.

The Company has granted irrevocable standby letters of credit, issued by highly-rated financial institutions, to third parties to indemnify them in the event the Company does not perform its contractual obligations. As at August 2, 2014, the maximum potential liability under these guarantees was $5,019 (August 3, 2013 – $5,019; February 1, 2014 – $5,019). The standby letters of credit mature at various dates during fiscal 2015. The Company has recorded no liability with respect to these guarantees, as the Company does not expect to make any payments for these items.

The Company is self-insured on a limited basis with respect to certain property risks and also purchases excess insurance coverage from financially stable third-party insurance companies. The Company maintains comprehensive internal security and loss prevention programs aimed at mitigating the financial impact of theft.

The Company continued repayment on its long-term debt, relating to the mortgage on the distribution centre, paying down $415 in the second quarter of fiscal 2015. The Company paid $0.05 dividends per share in the second quarter of fiscal 2015 totalling $3,230 compared to $0.20 dividends per share totalling $12,917 in the second quarter of fiscal 2014. With regard to dividend policy, the Board of Directors considers the Company's earnings per share, cash flow from operations, the level of planned capital expenditures and its cash and marketable securities. The targeted payout ratio is approximately 50% to 80% of sustainable earnings per share, 50% to 75% of cash flow from operations with consideration as to the ability to augment the dividend from the liquidity on the Company's balance sheet, if these targets are missed in a given year. The Board of Directors reviews these guidelines regularly.

In the second quarter of fiscal 2015, the Company invested $6,444, on a cash basis, primarily on new and renovated stores. The Company embarked on a major systems development project "SCORE" in 2010, which is in the final phases of completion. See additional details on the SCORE project in the "Balance Sheet" and "Information Technology" sections of this MD&A. In fiscal 2015, the Company expects to invest approximately $36,000 in capital expenditures. These expenditures, together with the payment of dividends, the repayments related to the Company's bank credit facility and long-term debt obligations, are expected to be funded by the Company's existing financial resources and funds derived from its operations.

FINANCIAL COMMITMENTS

There have been no material changes in the Company's financial commitments that are outside of the ordinary course of the Company's business from those described in the Company's audited annual consolidated financial statements for the year ended February 1, 2014.

OUTSTANDING SHARE DATA

At September 11, 2014, 13,440,000 Common shares and 51,146,506 Class A non-voting shares of the Company were issued and outstanding. Each Common share entitles the holder thereof to one vote at meetings of shareholders of the Company. The Company has 3,399,000 share options outstanding at an average exercise price of $10.57. Each share option entitles the holder to purchase one Class A non-voting share of the Company at an exercise price established based on the market price of the shares at the date the option was granted.

For the six months ended August 2, 2014, the Company did not purchase any shares under a normal course issuer bid approved in December 2013. For further information with respect to the normal course issuer bid refer to the Company's audited annual consolidated financial statements for the year ended February 1, 2014.

OFF-BALANCE SHEET ARRANGEMENTS

DERIVATIVE FINANCIAL INSTRUMENTS

The Company in its normal course of business must make long lead time commitments for a significant portion of its merchandise purchases, in some cases as long as twelve months. Most of these purchases must be paid for in U.S. dollars. The Company considers a variety of strategies designed to manage the cost of its continuing U.S. dollar long-term commitments, including spot rate purchases and foreign currency option contracts with maturities not exceeding twelve months. The Company entered into transactions with its banks whereby it purchased call options and sold put options, both on the U.S. dollar. These option contracts will expire within the next twelve months. Purchased call options and sold put options expiring on the same date have the same strike price.

Details of the foreign currency option contracts outstanding as at August 2, 2014, August 3, 2013 and as at February 1, 2014 are included in the "Operating Results for the Six Months Ended August 2, 2014 and Comparison to Operating Results for the Six Months Ended August 3, 2013" section of this MD&A.

A foreign currency option contract represents an option (call option) or obligation (put option) to buy a foreign currency from a counterparty at a predetermined date and amount. Credit risks exist in the event of failure by a counterparty to fulfill its obligations. The Company reduces this risk by dealing only with highly-rated counterparties, normally Canadian chartered banks. The Company does not use derivative financial instruments for speculative purposes.

Included in the determination of the Company's net earnings for the second quarter of fiscal 2015 and the year to date fiscal 2015 were net foreign exchange gains of $1,433 and $4,588, respectively (gain of $304 and $1,663 for the second quarter of fiscal 2014 and the year to date fiscal 2014, respectively).

RELATED PARTY TRANSACTIONS

There have been no significant changes in related party transactions from those disclosed in the Company's audited annual consolidated financial statements for the year ended February 1, 2014.

FINANCIAL INSTRUMENTS

The Company is highly liquid with significant cash and cash equivalents along with marketable securities. The Company uses its cash resources to fund ongoing store construction and renovations along with working capital needs. Financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities, trade and other receivables and foreign currency option contracts. The Company reduces this risk by dealing only with highly-rated counterparties, normally major Canadian financial institutions. The Company closely monitors its risk with respect to short-term cash investments. Marketable securities consist primarily of preferred shares of Canadian public companies. The Company's investment portfolio is subject to stock market volatility.

The volatility of the U.S. dollar vis-à-vis the Canadian dollar impacts earnings and while the Company considers a variety of strategies designed to manage the cost of its continuing U.S. dollar commitments, such as spot rate purchases and foreign exchange option contracts, this volatility can result in exposure to risk.

CRITICAL ACCOUNTING ESTIMATES

PENSION PLANS

The Company maintains a contributory, defined benefit plan and sponsors a Supplemental Executive Retirement Plan ("SERP"). The costs of the defined benefit plan and SERP are determined by means of actuarial valuations, which involve making assumptions about discount rates, future salary increases, mortality rates and the future increases in pensions. Because of the long-term nature of the plans, such estimates are subject to a high degree of uncertainty. Based upon the most recently filed actuarial valuation report as at December 31, 2013, the defined benefit plan, despite being fully funded on a going concern basis, had a solvency deficiency of $142. The Company has funded the required amounts as at August 2, 2014. The SERP is an unfunded pay as you go plan.

GIFT CARDS / LOYALTY POINTS AND AWARDS

Gift cards sold are recorded as deferred revenue and revenue is recognized when the gift cards are redeemed. An estimate is made of gift cards not expected to be redeemed based on the terms of the gift cards and historical redemption patterns. Loyalty points and awards granted under customer loyalty programs are recognized as a separate component of revenue and are deferred at the date of initial sale. Revenue is recognized when the loyalty points and awards are redeemed and the Company has fulfilled its obligation. The amount of revenue deferred is measured based on the fair value of loyalty points and awards granted, taking into consideration the estimated redemption percentage.

INVENTORY VALUATION

Inventories are valued at the lower of cost and net realizable value. Estimates are required in relation to forecasted sales and inventory balances. In situations where excess inventory balances are identified, estimates of net realizable values for the excess inventory are made. The Company has set up provisions for merchandise in inventory that may have to be sold below cost. For this purpose, the Company has developed assumptions regarding the quantity of merchandise sold below cost. Given that inventory and cost of sales are significant components of the consolidated financial statements, any changes in assumptions and estimates could have a material impact on the Company's financial position and results of operations.

ASSET IMPAIRMENT

The Company must assess the possibility that the carrying amounts of tangible and intangible assets (including goodwill) may not be recoverable. Impairment testing is performed whenever there is an indication of impairment, except for goodwill and intangible assets with indefinite useful lives for which impairment testing is performed at least once per year. Significant management estimates are required to determine the recoverable amount of the cash-generating unit ("CGU") including estimates of fair value, selling costs or the discounted future cash flows related to the CGU. Differences in estimates could affect whether tangible and intangible assets (including goodwill) are in fact impaired and the dollar amount of that impairment.

NEW ACCOUNTING POLICIES ADOPTED IN FISCAL 2015

IFRIC 21 – LEVIES

In May 2013, the IASB issued IFRIC Interpretation 21, *Levies*, which is an interpretation of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Company implemented this standard retrospectively in the first quarter of the year ended January 31, 2015. There were no measurement impacts on the Company's unaudited condensed consolidated interim financial statements as a result of the adoption of IFRIC 21.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, and amendments to standards and interpretations, are not yet effective for the six months ended August 2, 2014 and have not been applied in preparing the unaudited condensed consolidated interim financial statements. New standards and amendments to standards and interpretations that are currently under review include:

IFRS 9 – FINANCIAL INSTRUMENTS

On November 12, 2009, the IASB issued a new standard, IFRS 9, *Financial Instruments* ("IFRS 9"), which will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities and was initiated in response to the crisis in financial markets.

In November 2013, the IASB released IFRS 9, *Financial Instruments (2013)*, which introduces a new hedge accounting model, together with corresponding disclosures about risk management activities. The new hedge accounting model represents a significant change in hedge accounting requirements. It increases the scope of hedged items eligible for hedge accounting and it enables entities to better reflect their risk management activities in their financial statements.

The IASB tentatively decided to require an entity to apply IFRS 9 for annual periods beginning on or after January 1, 2018, but early adoption is permitted. The Company is evaluating the impact of this standard on its consolidated financial statements.

IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"). The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2017. Early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company has designed disclosure controls and procedures to provide reasonable assurance that material information related to the Company is included in the annual and quarterly filings. In addition, the Company evaluated the effectiveness of the disclosure controls and procedures as of February 1, 2014 and concluded that these controls were effective.

The Company, under the supervision of the Chief Executive Officer and Chief Financial Officer, has designed internal controls over financial reporting, as defined by National Instrument 52-109, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company evaluated the effectiveness of the internal controls over financial reporting as of February 1, 2014 and concluded that these controls were effective.

There have been no changes in the Company's internal controls over financial reporting during the year to date 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

OUTLOOK

The retail environment remains challenging with consumer debt remaining high and heightened competitive pressure on retailers. Changes to the retail landscape in Canada are taking place with increased competition from both large and mid-size international rivals expanding into Canada, spurred by a relatively strong Canadian economy and low barriers to entry.

The Company has made significant changes in branding among its banners with consumers showing positive acceptance as the changes take effect. The changes undertaken in the Smart Set banner, both through net store reductions and rebranding efforts, are anticipated to improve profitability. The Company has invested considerably in its information technology and handling systems while reducing capital expenditures, significantly at store level. In addition, cost reduction and process improvement initiatives have started to yield results. In conjunction, the Company will leverage its technology with improved systems and processes as part of the SCORE project while continuing further process improvement initiatives.

The Company's Hong Kong office, with over 120 full-time employees, is dedicated to seeking out the highest quality, affordable and fashionable apparel for all of our banners. A comprehensive review of the Company's global sourcing strategy and execution has been undertaken with a goal of reducing lead time for bringing products to market.

The Company has a strong balance sheet, with excellent liquidity and borrowing capacity providing the ability to act when opportunities present themselves in whatever format including merchandising, store acquisition/construction, system replacements/upgrading or expansion by acquisition. The Company believes in the strength of its employees and is committed to continue to invest in training for all levels.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(UNAUDITED)
(IN THOUSANDS OF CANADIAN DOLLARS EXCEPT PER SHARE AMOUNTS)

	FOR THE SIX MONTHS ENDED		FOR THE THREE MONTHS ENDED	
	AUGUST 2, 2014	AUGUST 3, 2013	AUGUST 2, 2014	AUGUST 3, 2013
Sales	**$ 464,804**	$ 470,306	**$ 258,326**	$ 253,445
Cost of goods sold (note 6)	**188,278**	171,929	**104,545**	95,242
Gross profit	**276,526**	298,377	**153,781**	158,203
Selling and distribution expenses	**252,681**	268,066	**127,151**	136,095
Administrative expenses	**25,305**	24,104	**14,436**	11,828
Results from operating activities	**(1,460)**	6,207	**12,194**	10,280
Finance income (note 12)	**6,229**	4,640	**2,244**	3,878
Finance costs (note 12)	**9,706**	763	**2,535**	579
(Loss) earnings before income taxes	**(4,937)**	10,084	**11,903**	13,579
Income tax recovery (expense) (note 11)	**1,079**	(2,488)	**(2,346)**	(3,397)
Net (loss) earnings	**$ (3,858)**	$ 7,596	**$ 9,557**	$ 10,182
(Loss) earnings per share (note 13):				
Basic	**$ (0.06)**	$ 0.12	**$ 0.15**	$ 0.16
Diluted	**(0.06)**	0.12	**0.15**	0.16

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)
(IN THOUSANDS OF CANADIAN DOLLARS)

	FOR THE SIX MONTHS ENDED		FOR THE THREE MONTHS ENDED	
	AUGUST 2, 2014	AUGUST 3, 2013	AUGUST 2, 2014	AUGUST 3, 2013
Net (loss) earnings	**$ (3,858)**	$ 7,596	**$ 9,557**	$ 10,182
Other comprehensive income (loss)				
Items that are or may be reclassified subsequently to net earnings:				
Reclassification of impairment loss on available-for-sale financial assets to net earnings (net of tax of $1 for the six months ended August 2, 2014; $68 for the six months and $60 for the three months ended August 3, 2013) (note 12)	**9**	434	**–**	392
Net change in fair value of available-for-sale financial assets (net of tax of $361 for the six months and $49 for the three months ended August 2, 2014; $185 for the six months and $286 for the three months ended August 3, 2013)	**2,358**	(1,223)	**317**	(1,886)
Foreign currency translation differences (note 9)	**(151)**	–	**22**	–
Total other comprehensive income (loss)	**2,216**	(789)	**339**	(1,494)
Total comprehensive (loss) income	**$ (1,642)**	$ 6,807	**$ 9,896**	$ 8,688

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)
(IN THOUSANDS OF CANADIAN DOLLARS)

	AUGUST 2, 2014	AUGUST 3, 2013	FEBRUARY 1, 2014
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents (note 4)	**$ 113,380**	$ 76,559	$ 122,355
Marketable securities	**52,905**	70,432	55,062
Trade and other receivables	**5,160**	3,585	6,422
Derivative financial asset (note 5)	**3,343**	2,475	11,775
Income taxes recoverable	**2,123**	5,436	5,656
Inventories (note 6)	**112,455**	116,595	109,601
Prepaid expenses	**27,134**	27,869	12,512
Total Current Assets	**316,500**	302,951	323,383
NON-CURRENT ASSETS			
Property and equipment	**164,375**	193,556	178,341
Intangible assets	**18,287**	17,291	17,211
Goodwill	**42,426**	42,426	42,426
Deferred income taxes	**30,729**	29,003	28,578
Total Non-Current Assets	**255,817**	282,276	266,556
Total assets	**$ 572,317**	$ 585,227	$ 589,939
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Trade and other payables (note 7)	**$ 87,550**	$ 81,891	$ 90,734
Derivative financial liability (note 5)	**4,057**	1,256	3,065
Deferred revenue (note 8)	**15,359**	10,962	19,998
Current portion of long-term debt	**1,725**	1,620	1,672
Total Current Liabilities	**108,691**	95,729	115,469
NON-CURRENT LIABILITIES			
Other payables (note 7)	**10,855**	11,265	11,842
Deferred lease credits	**13,921**	17,374	15,607
Long-term debt	**4,456**	6,181	5,331
Pension liability	**18,749**	18,336	18,259
Total Non-Current Liabilities	**47,981**	53,156	51,039
SHAREHOLDERS' EQUITY			
Share capital (note 9)	**39,227**	39,227	39,227
Contributed surplus	**7,503**	6,997	7,188
Retained earnings	**359,343**	382,242	369,660
Accumulated other comprehensive income (note 9)	**9,572**	7,876	7,356
Total Shareholders' Equity	**415,645**	436,342	423,431
Total liabilities and shareholders' equity	**$ 572,317**	$ 585,227	$ 589,939

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(UNAUDITED)
(IN THOUSANDS OF CANADIAN DOLLARS)

	NOTE	SHARE CAPITAL	CONTRIBUTED SURPLUS	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL SHAREHOLDERS' EQUITY
Balance as at February 2, 2014		$ 39,227	$ 7,188	$ 369,660	$ 7,356	$ 423,431
Total comprehensive loss for the period						
Net loss				(3,858)		(3,858)
Total other comprehensive income					2,216	2,216
Total comprehensive loss for the period		–	–	(3,858)	2,216	(1,642)
Contributions by and distributions to owners of the Company						
Share-based compensation costs	10		315			315
Dividends	9			(6,459)		(6,459)
Total contributions by and distributions to owners of the Company		–	315	(6,459)	–	(6,144)
Balance as at August 2, 2014		$ 39,227	$ 7,503	$ 359,343	$ 9,572	$ 415,645
Balance as at May 4, 2014		$ 39,227	$ 7,261	$ 353,016	$ 9,233	$ 408,737
Total comprehensive income for the period						
Net earnings				9,557		9,557
Total other comprehensive income					339	339
Total comprehensive income for the period		–	–	9,557	339	9,896
Contributions by and distributions to owners of the Company						
Share-based compensation costs	10		242			242
Dividends	9			(3,230)		(3,230)
Total contributions by and distributions to owners of the Company		–	242	(3,230)	–	(2,988)
Balance as at August 2, 2014		$ 39,227	$ 7,503	$ 359,343	$ 9,572	$ 415,645

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

(UNAUDITED)
(IN THOUSANDS OF CANADIAN DOLLARS)

	NOTE	SHARE CAPITAL	CONTRIBUTED SURPLUS	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL SHAREHOLDERS' EQUITY
Balance as at February 3, 2013		$ 39,227	$ 6,521	$ 400,480	$ 8,665	$ 454,893
Total comprehensive income for the period						
Net earnings				7,596		7,596
Total other comprehensive loss					(789)	(789)
Total comprehensive income for the period		–	–	7,596	(789)	6,807
Contributions by and distributions to owners of the Company						
Share-based compensation costs	10		476			476
Dividends	9			(25,834)		(25,834)
Total contributions by and distributions to owners of the Company		–	476	(25,834)	–	(25,358)
Balance as at August 3, 2013		$ 39,227	$ 6,997	$ 382,242	$ 7,876	$ 436,342
Balance as at May 5, 2013		$ 39,227	$ 6,795	$ 384,977	$ 9,370	$ 440,369
Total comprehensive income for the period						
Net earnings				10,182		10,182
Total other comprehensive loss					(1,494)	(1,494)
Total comprehensive income for the period		–	–	10,182	(1,494)	8,688
Contributions by and distributions to owners of the Company						
Share-based compensation costs	10		202			202
Dividends	9			(12,917)		(12,917)
Total contributions by and distributions to owners of the Company		–	202	(12,917)	–	(12,715)
Balance as at August 3, 2013		$ 39,227	$ 6,997	$ 382,242	$ 7,876	$ 436,342

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)
(IN THOUSANDS OF CANADIAN DOLLARS)

	FOR THE SIX MONTHS ENDED		FOR THE THREE MONTHS ENDED	
	AUGUST 2, 2014	AUGUST 3, 2013	AUGUST 2, 2014	AUGUST 3, 2013
CASH FLOWS FROM OPERATING ACTIVITIES				
Net (loss) earnings	**$ (3,858)**	$ 7,596	**$ 9,557**	$ 10,182
Adjustments for:				
Depreciation, amortization and net impairment losses	**25,831**	32,499	**12,364**	17,503
Share-based compensation costs	**315**	476	**242**	202
Amortization of deferred lease credits	**(1,955)**	(2,258)	**(926)**	(1,082)
Deferred lease credits	**269**	2,827	**73**	1,659
Pension contribution	**(494)**	(123)	**(207)**	(91)
Pension expense	**984**	900	**492**	450
Realized loss on sale of marketable securities	**61**	–	**37**	–
Impairment loss on available-for-sale financial assets	**10**	502	**–**	452
Net change in fair value of derivatives	**9,424**	(937)	**2,395**	(2,536)
Foreign exchange gain on cash and cash equivalents	**(1,086)**	(155)	**(406)**	(196)
Interest and dividend income, net	**(1,369)**	(1,779)	**(671)**	(911)
Interest paid	**(211)**	(261)	**(103)**	(127)
Interest received	**381**	310	**183**	172
Dividends received	**1,439**	1,734	**629**	867
Income tax (recovery) expense	**(1,079)**	2,488	**2,346**	3,397
	28,662	43,819	**26,005**	29,941
Changes in:				
Trade and other receivables	**1,028**	379	**1,944**	1,977
Inventories	**(2,854)**	(23,278)	**8,287**	(4,342)
Prepaid expenses	**(14,622)**	(1,925)	**(1,372)**	(2,078)
Trade and other payables	**(4,333)**	12,490	**13,795**	6,503
Deferred revenue	**(4,639)**	(5,335)	**(168)**	(164)
Cash from operating activities	**3,242**	26,150	**48,491**	31,837
Income taxes received	**5,133**	650	**5,133**	3
Income taxes paid	**(3,033)**	(2,306)	**(838)**	–
Net cash flows from operating activities	**5,342**	24,494	**52,786**	31,840
CASH FLOWS USED IN INVESTING ACTIVITIES				
Purchases of marketable securities	**(185)**	(210)	**(80)**	(105)
Proceeds on sale of marketable securities	**5,000**	–	**2,500**	–
Proceeds on sales of trademarks	**55**	–	**26**	–
Additions to property and equipment and intangible assets	**(12,779)**	(18,900)	**(6,444)**	(8,794)
Cash flows used in investing activities	**(7,909)**	(19,110)	**(3,998)**	(8,899)
CASH FLOWS USED IN FINANCING ACTIVITIES				
Dividends paid	**(6,459)**	(25,834)	**(3,230)**	(12,917)
Repayment of long-term debt	**(822)**	(772)	**(415)**	(390)
Cash flows used in financing activities	**(7,281)**	(26,606)	**(3,645)**	(13,307)
FOREIGN EXCHANGE GAIN ON CASH HELD IN FOREIGN CURRENCY	**873**	155	**389**	196
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(8,975)**	(21,067)	**45,532**	9,830
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	**122,355**	97,626	**67,848**	66,729
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	**$ 113,380**	$ 76,559	**$ 113,380**	$ 76,559

Supplementary cash flow information (note 14)

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

1 REPORTING ENTITY

Reitmans (Canada) Limited (the "Company") is a company domiciled in Canada and is incorporated under the Canada Business Corporations Act. The address of the Company's registered office is 3300 Highway #7 West, Suite 702, Vaughan, Ontario L4K 4M3. The principal business activity of the Company is the sale of women's wear at retail.

2 BASIS OF PRESENTATION

A) STATEMENT OF COMPLIANCE

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") on a basis consistent with those accounting policies followed by the Company in the most recent audited annual consolidated financial statements except where noted below. These unaudited condensed consolidated interim financial statements have been prepared under IFRS in accordance with IAS 34, *Interim Financial Reporting*. Certain information, in particular the accompanying notes, normally included in the audited annual consolidated financial statements prepared in accordance with IFRS has been omitted or condensed. Accordingly, these unaudited condensed consolidated interim financial statements do not include all the information required for full annual financial statements, and, therefore, should be read in conjunction with the audited annual consolidated financial statements and the notes thereto for the year ended February 1, 2014. Certain comparative figures have been reclassified to conform to the current year's presentation.

These unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on September 11, 2014.

B) BASIS OF MEASUREMENT

These unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis except for the following material items:

- available-for-sale financial assets are measured at fair value through other comprehensive income;
- the pension liability is recognized as the present value of the defined benefit obligation less the fair value of the plan assets; and
- derivative financial instruments are measured at fair value.

C) SEASONALITY OF INTERIM OPERATIONS

The retail business is seasonable and the results of operations for any interim period are not necessarily indicative of the results of operation for the full fiscal year or any future period.

D) FUNCTIONAL AND PRESENTATION CURRENCY

These unaudited condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand, except per share amounts.

E) ESTIMATES, JUDGMENTS AND ASSUMPTIONS

The preparation of the unaudited condensed consolidated interim financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, the disclosure of contingent assets and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the period. These estimates and assumptions are based on historical experience, other relevant factors and expectations of the future and are reviewed regularly. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Actual results may differ from these estimates.

In preparing these unaudited condensed consolidated interim financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation of uncertainty were the same as those applied and described in the Company's audited annual consolidated financial statements for the year ended February 1, 2014.

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies as disclosed in the Company's audited annual consolidated financial statements for the year ended February 1, 2014 have been applied consistently in the preparation of these unaudited condensed consolidated interim financial statements except as noted below:

A) ADOPTION OF NEW ACCOUNTING POLICIES

IFRIC 21 – Levies

In May 2013, the IASB issued IFRIC Interpretation 21, *Levies*, which is an interpretation of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The Company implemented this standard retrospectively in the first quarter of the year ended January 31, 2015. There were no measurement impacts on the Company's unaudited condensed consolidated interim financial statements as a result of the adoption of IFRIC 21.

B) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, and amendments to standards and interpretations, are not yet effective for the six months ended August 2, 2014 and have not been applied in preparing these unaudited condensed consolidated interim financial statements. New standards and amendments to standards and interpretations that are currently under review include:

IFRS 9 – Financial Instruments

On November 12, 2009, the IASB issued a new standard, IFRS 9, *Financial Instruments* ("IFRS 9"), which will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities and was initiated in response to the crisis in financial markets.

In November 2013, the IASB released IFRS 9, *Financial Instruments (2013)*, which introduces a new hedge accounting model, together with corresponding disclosures about risk management activities. The new hedge accounting model represents a significant change in hedge accounting requirements. It increases the scope of hedged items eligible for hedge accounting and it enables entities to better reflect their risk management activities in their financial statements.

The IASB tentatively decided to require an entity to apply IFRS 9 for annual periods beginning on or after January 1, 2018, but early adoption is permitted. The Company is evaluating the impact of this standard on its consolidated financial statements.

IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"). The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2017. Early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

4 CASH AND CASH EQUIVALENTS

	AUGUST 2, 2014	AUGUST 3, 2013	FEBRUARY 1, 2014
Cash on hand and with banks	**$ 56,867**	$ 13,146	$ 19,224
Short-term deposits, bearing interest at 0.5% (August 3, 2013 – 0.9%; February 1, 2014 – 0.9%)	**56,513**	63,413	103,131
	$ 113,380	$ 76,559	$ 122,355

5 FINANCIAL INSTRUMENTS

ACCOUNTING CLASSIFICATION AND FAIR VALUES

The following table shows the carrying amounts and fair values of the financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of the fair value. The Company has determined that the fair value of its current financial assets and liabilities (other than those included below) approximates their respective carrying amounts as at the reporting dates because of the short-term nature of those financial instruments.

	AUGUST 2, 2014						
	CARRYING AMOUNT				FAIR VALUE		
	FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE-FOR-SALE	OTHER FINANCIAL LIABILITIES	TOTAL	LEVEL 1	LEVEL 2	TOTAL
Financial assets measured at fair value							
Derivative financial asset	**$ 3,343**	**$ –**	**$ –**	**$ 3,343**	**$ –**	**$ 3,343**	**$ 3,343**
Marketable securities	**$ –**	**$ 52,905**	**$ –**	**$ 52,905**	**$ 52,905**	**$ –**	**$ 52,905**
Financial liabilities measured at fair value							
Derivative financial liability	**$ (4,057)**	**$ –**	**$ –**	**$ (4,057)**	**$ –**	**$ (4,057)**	**$ (4,057)**
Financial liabilities not measured at fair value							
Long-term debt	**$ –**	**$ –**	**$ (6,181)**	**$ (6,181)**	**$ –**	**$ (6,538)**	**$ (6,538)**

	AUGUST 3, 2013						
	CARRYING AMOUNT				FAIR VALUE		
	FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE-FOR-SALE	OTHER FINANCIAL LIABILITIES	TOTAL	LEVEL 1	LEVEL 2	TOTAL
Financial assets measured at fair value							
Derivative financial asset	$ 2,475	$ –	$ –	$ 2,475	$ –	$ 2,475	$ 2,475
Marketable securities	$ –	$ 70,432	$ –	$ 70,432	$ 70,432	$ –	$ 70,432
Financial liabilities measured at fair value							
Derivative financial liability	$ (1,256)	$ –	$ –	$ (1,256)	$ –	$ (1,256)	$ (1,256)
Financial liabilities not measured at fair value							
Long-term debt	$ –	$ –	$ (7,801)	$ (7,801)	$ –	$ (8,323)	$ (8,323)

	FEBRUARY 1, 2014						
	CARRYING AMOUNT				FAIR VALUE		
	FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE-FOR-SALE	OTHER FINANCIAL LIABILITIES	TOTAL	LEVEL 1	LEVEL 2	TOTAL
Financial assets measured at fair value							
Derivative financial asset	$ 11,775	$ –	$ –	$ 11,775	$ –	$ 11,775	$ 11,775
Marketable securities	$ –	$ 55,062	$ –	$ 55,062	$ 55,062	$ –	$ 55,062
Financial liabilities measured at fair value							
Derivative financial liability	$ (3,065)	$ –	$ –	$ (3,065)	$ –	$ (3,065)	$ (3,065)
Financial liabilities not measured at fair value							
Long-term debt	$ –	$ –	$ (7,003)	$ (7,003)	$ –	$ (7,462)	$ (7,462)

There were no transfers between levels of the fair value hierarchy for the periods ended August 2, 2014, August 3, 2013 and February 1, 2014.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company entered into transactions with its banks whereby it purchased call options and sold put options, both on the U.S. dollar. These option contracts extend over a period of twelve months. Purchased call options and sold put options expiring on the same date have the same strike price.

Details of the foreign currency option contracts outstanding for each of the periods listed are as follows:

	AUGUST 2, 2014				
	AVERAGE STRIKE PRICE	NOTIONAL AMOUNT IN U.S. DOLLARS	DERIVATIVE FINANCIAL ASSET	DERIVATIVE FINANCIAL LIABILITY	NET
Call options purchased	**$ 1.09**	**$ 160,000**	**$ 3,343**	**$ –**	**$ 3,343**
Put options sold	**$ 1.09**	**$ 290,000**	**–**	**(4,057)**	**(4,057)**
			$ 3,343	**$ (4,057)**	**$ (714)**

	AUGUST 3, 2013				
	AVERAGE STRIKE PRICE	NOTIONAL AMOUNT IN U.S. DOLLARS	DERIVATIVE FINANCIAL ASSET	DERIVATIVE FINANCIAL LIABILITY	NET
Call options purchased	$ 1.02	$ 90,000	$ 2,475	$ –	$ 2,475
Put options sold	$ 1.02	$ 160,000	–	(1,256)	(1,256)
			$ 2,475	$ (1,256)	$ 1,219

	FEBRUARY 1, 2014				
	AVERAGE STRIKE PRICE	NOTIONAL AMOUNT IN U.S. DOLLARS	DERIVATIVE FINANCIAL ASSET	DERIVATIVE FINANCIAL LIABILITY	NET
Call options purchased	$ 1.07	$ 212,000	$ 11,775	$ –	$ 11,775
Put options sold	$ 1.07	$ 364,000	–	(3,065)	(3,065)
			$ 11,775	$ (3,065)	$ 8,710

6 INVENTORIES

During the six and three months ended August 2, 2014, inventories recognized as cost of goods sold amounted to $184,306 and $102,017, respectively ($170,234 and $94,047 for the six and three months ended August 3, 2013). In addition, for the six and three months ended August 2, 2014, the Company recorded $3,972 and $2,528 of inventory write-downs respectively ($1,695 and $1,195 for the six and three months ended August 3, 2013), as a result of net realizable value being lower than cost and no inventory write-downs recognized in previous periods were reversed.

Included in inventories is an amount of $36,806 (August 3, 2013 – $34,290; February 1, 2014 – $30,524) representing goods in transit.

7 TRADE AND OTHER PAYABLES

	AUGUST 2, 2014	AUGUST 3, 2013	FEBRUARY 1, 2014
Trade payables	**$ 46,051**	$ 48,723	$ 49,593
Non-trade payables due to related parties	**55**	55	55
Other non-trade payables	**9,864**	9,265	10,878
Personnel liabilities	**27,170**	21,955	25,566
Payables relating to premises	**14,402**	12,327	15,777
Provision for sales returns	**863**	831	707
	98,405	93,156	102,576
Less non-current portion	**10,855**	11,265	11,842
	$ 87,550	$ 81,891	$ 90,734

The non-current portion of trade and other payables, which is included in payables relating to premises, represents the portion of deferred rent to be amortized and other payables beyond the next twelve months.

8 DEFERRED REVENUE

	AUGUST 2, 2014	AUGUST 3, 2013	FEBRUARY 1, 2014
Loyalty points and awards granted under loyalty programs	**$ 8,776**	$ 6,360	$ 7,198
Unredeemed gift cards	**6,583**	4,602	12,800
	$ 15,359	$ 10,962	$ 19,998

9 SHARE CAPITAL AND OTHER COMPONENTS OF EQUITY

The change in share capital for each of the periods listed was as follows:

	FOR THE SIX MONTHS ENDED AUGUST 2, 2014		AUGUST 3, 2013	
	NUMBER OF SHARES (IN 000'S)	CARRYING AMOUNT	NUMBER OF SHARES (IN 000'S)	CARRYING AMOUNT
Common shares				
Balance at beginning and end of the period	**13,440**	**$ 482**	13,440	$ 482
Class A non-voting shares				
Balance at beginning and end of the period	**51,146**	**38,745**	51,146	38,745
Total share capital	**64,586**	**$ 39,227**	64,586	$ 39,227

AUTHORIZED SHARE CAPITAL

The Company has authorized for issuance an unlimited number of Common shares and Class A non-voting shares. Both Common shares and Class A non-voting shares have no par value. All issued shares are fully paid.

The Common shares and Class A non-voting shares of the Company rank equally and pari passu with respect to the right to receive dividends and upon any distribution of the assets of the Company. However, in the case of share dividends, the holders of Class A non-voting shares shall have the right to receive Class A non-voting shares and the holders of Common shares shall have the right to receive Common shares.

ISSUANCE OF CLASS A NON-VOTING SHARES

During the six months ended August 2, 2014, there were no Class A non-voting shares issued as a result of the exercise of vested options arising from the Company's share option program (August 3, 2013 – nil).

PURCHASE OF SHARES FOR CANCELLATION

The Company did not purchase any shares under a normal course issuer bid approved in December 2013 in the six months ended August 2, 2014. For further information with respect to the normal course issuer bid refer to the Company's audited annual consolidated financial statements for the year ended February 1, 2014.

ACCUMULATED OTHER COMPREHENSIVE INCOME ("AOCI")

AOCI is comprised of the following:

	AUGUST 2, 2014	AUGUST 3, 2013	FEBRUARY 1, 2014
Net change in fair value of available-for-sale financial assets, net of taxes	**$ 9,694**	$ 7,876	$ 7,327
Cumulative foreign currency translation differences	**(122)**	–	29
	$ 9,572	$ 7,876	$ 7,356

DIVIDENDS

The following dividends were declared and paid by the Company:

	FOR THE SIX MONTHS ENDED		FOR THE THREE MONTHS ENDED	
	AUGUST 2, 2014	AUGUST 3, 2013	AUGUST 2, 2014	AUGUST 3, 2013
Common shares and Class A non-voting shares	**$ 6,459**	$ 25,834	**$ 3,230**	$ 12,917
Dividend per share	**$ 0.10**	$ 0.40	**$ 0.05**	$ 0.20

10 SHARE-BASED PAYMENTS

A) DESCRIPTION OF THE SHARE-BASED PAYMENT ARRANGEMENTS

The Company has a share option plan that provides that up to 10% of the Class A non-voting shares outstanding, from time to time, may be issued pursuant to the exercise of options granted under the plan to key management and employees. The granting of options and the related vesting period, which is normally up to 5 years, are at the discretion of the Board of Directors and the options have a maximum term of 10 years. The exercise price payable for each Class A non-voting share covered by a share option is determined by the Board of Directors at the date of grant, but may not be less than the closing price of the Company's shares on the trading day immediately preceding the effective date of the grant.

B) DISCLOSURE OF EQUITY-SETTLED SHARE OPTION PLAN

Changes in outstanding share options were as follows:

	FOR THE SIX MONTHS ENDED				FOR THE THREE MONTHS ENDED			
	AUGUST 2, 2014		AUGUST 3, 2013		AUGUST 2, 2014		AUGUST 3, 2013	
	OPTIONS (IN 000'S)	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS (IN 000'S)	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS (IN 000'S)	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS (IN 000'S)	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, at beginning of period	**2,090**	**$ 14.43**	2,420	$ 14.53	**1,964**	**$ 14.42**	2,370	$ 14.52
Granted	**1,557**	**6.00**	–	–	**1,557**	**6.00**	–	–
Forfeited	**(248)**	**14.40**	(94)	14.77	**(122)**	**14.29**	(44)	14.50
Outstanding, at end of period	**3,399**	**$ 10.57**	2,326	$ 14.53	**3,399**	**$ 10.57**	2,326	$ 14.53
Options exercisable, at end of period	**1,464**	**$ 14.50**	1,447	$ 14.66	**1,464**	**$ 14.50**	1,447	$ 14.66

There were no share options exercised during the six months ended August 2, 2014 and August 3, 2013.

C) Compensation cost related to 1,557,000 share option awards granted during the six months and three months ended August 2, 2014 under the fair value based approach was calculated using the following assumptions:

	1,557,000 OPTIONS GRANTED JUNE 16, 2014
Expected option life	6.3 years
Risk-free interest rate	1.79%
Expected stock price volatility	32.38%
Average dividend yield	3.33%
Weighted average fair value of options granted	$ 1.38
Share price at grant date	$ 6.00

D) **EMPLOYEE EXPENSE**

For the six and three months ended August 2, 2014, the Company recognized compensation costs of $315 and $242, respectively, relating to share-based payment arrangements ($476 and $202 for the six and three months ended August 3, 2013), with a corresponding credit to contributed surplus.

11 INCOME TAX

The Company's effective tax rate for the six and three months ended August 2, 2014 was 21.86% and 19.71%, respectively (24.67% and 25.02% for the six and three months ended August 3, 2013). In the interim periods, the income tax provision is based on an estimate of the earnings that will be generated in a full year. The estimated average annual effective income tax rates are re-estimated at each interim reporting date, based on full year projections of earnings. To the extent that forecasts differ from actual results, adjustments are recognized in subsequent periods.

12 FINANCE INCOME AND FINANCE COSTS

	FOR THE SIX MONTHS ENDED		FOR THE THREE MONTHS ENDED	
	AUGUST 2, 2014	AUGUST 3, 2013	AUGUST 2, 2014	AUGUST 3, 2013
Dividend income from available-for-sale financial assets	**$ 1,297**	$ 1,736	**$ 630**	$ 868
Interest income from loans and receivables	**344**	304	**181**	170
Net change in fair value of derivatives	**–**	937	**–**	2,536
Foreign exchange gain	**4,588**	1,663	**1,433**	304
Finance income	**6,229**	4,640	**2,244**	3,878
Interest expense – mortgage	**211**	261	**103**	127
Impairment loss on available-for-sale financial assets	**10**	502	**–**	452
Net change in fair value of derivatives	**9,424**	–	**2,395**	–
Realized loss on disposal of available-for-sale financial assets	**61**	–	**37**	–
Finance costs	**9,706**	763	**2,535**	579
Net finance (costs) income recognized in net earnings	**$ (3,477)**	$ 3,877	**$ (291)**	$ 3,299

13 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on net loss for the six months ended August 2, 2014 of $3,858 and net earnings of $9,557 for the three months ended August 2, 2014 (net earnings of $7,596 and $10,182 for the six and three months ended August 3, 2013, respectively).

The number of shares (in thousands) used in the earnings per share calculation is as follows:

	FOR THE SIX MONTHS ENDED		FOR THE THREE MONTHS ENDED	
	AUGUST 2, 2014	AUGUST 3, 2013	AUGUST 2, 2014	AUGUST 3, 2013
Weighted average number of shares per basic earnings per share calculations	**64,586**	64,586	**64,586**	64,586
Weighted average number of shares per diluted earnings per share calculations	**64,586**	64,586	**64,586**	64,586

As at August 2, 2014, a total of 3,399,000 (August 3, 2013 – 2,326,250) share options were excluded from the calculation of diluted earnings per share as these options were deemed to be anti-dilutive, because the exercise prices were greater than the average market price of the shares during the period.

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

14 SUPPLEMENTARY CASH FLOW AND OTHER INFORMATION

	AUGUST 2, 2014	AUGUST 3, 2013	FEBRUARY 1, 2014
Non-cash transactions:			
Additions to property and equipment and intangible assets included in trade and other payables	**$ 1,754**	$ 1,418	$ 1,592

Included in depreciation, amortization and impairment losses are write-offs of property and equipment related to store closures and asset impairment charges relating to underperforming stores of $2,459 and $892 for the six and three months ended August 2, 2014 respectively ($4,389 and $3,587 for the six and three months ended August 3, 2013). There were no reversal of asset impairment charges for the six months ended August 2, 2014 and August 3, 2013.

15 FINANCIAL RISK MANAGEMENT

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. There have been no significant changes in the Company's risk exposures during the six months ended August 2, 2014 from those described in the Company's audited annual consolidated financial statements for the year ended February 1, 2014.

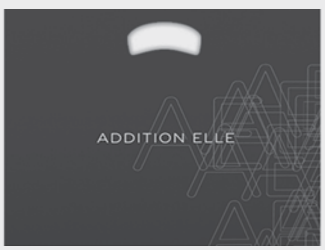
845 STORES

343

REITMANS offers a unique combination of superior fit, fashion, quality and value. With 343 stores across Canada averaging 4,600 sq. ft., Reitmans is the preferred destination for women looking to update their wardrobe with the latest styles and colours for an affordable price. While Reitmans enjoys a strong reputation for service and benefits from a broad and loyal customer base, it will continue to strive to create an engaging customer experience by being there for her whenever she chooses to shop. Reitmans' fashions can also be purchased online at reitmans.com.

143

Canadian leader of the plus-size apparel market, PENNINGTONS consistently offers unparalleled value to our customers by providing fit expertise, quality and a unique inspiring shopping experience. Penningtons is the ART OF AFFORDABLE FASHION! The plus-size fashion destination for sizes 14–32, Penningtons operates 143 stores across Canada averaging 6,000 sq. ft. and is available 24 hours/day at penningtons.com. From head-to-toe, our customers will find the best fitted clothing from intimate apparel, basic to fashion denim, work to weekend outfits, footwear and activewear.



102

ADDITION ELLE is Canada's leading fashion destination for plus-size women. Addition Elle's vision of offering "Fashion Democracy" delivers the latest "must-have" trends to updated fashion essentials in an inspiring shopping environment. From casual daywear to amazing dresses, contemporary career, sexy intimates, accessories, footwear, high performance activewear and the largest assortment of premium denim labels – it's all here. Addition Elle's fashion for plus-size women comprises a phenomenal range of fashions for all – always with a focus on fashion, quality and fit. Addition Elle operates 102 stores averaging 6,000 sq. ft. in major malls and power centres nationwide and an e-commerce site at additionelle.com.

76

RW & CO. is an aspirational lifestyle brand which caters to men and women with an urban mindset. Whether for work or for weekend, RW & CO. offers fashion that blends the latest trends with style, quality and a unique attention to detail. RW & CO. operates 76 stores averaging 4,500 sq. ft. in premium locations in major shopping malls across Canada, as well as an e-commerce site at rw-co.com.

68

THYME MATERNITY, Canada's leading fashion brand for modern moms-to-be, offers current styles for every aspect of life, from casual to work, including a complete line of nursing fashion and accessories. Thyme brings future moms valuable advice, fashion tips and product knowledge to help them on their incredible journey during and after pregnancy. Thyme operates 68 stores averaging 2,300 sq. ft. in major malls and power centres nationwide, as well as 21 Thyme shop-in-shops in select Babies"R"Us locations in Canada. Thyme Maternity fashions can also be purchased online at thymematernity.com.

113

With 113 stores, averaging 3,400 sq. ft., SMART SET is a style destination where young women come together to inspire and be inspired. From wear-to-work separates, denim, essentials and accessories, Smart Set offers the latest styles in women's fashions to mix, match and innovate. Smart Set fashions can also be purchased online at smartset.ca.

STORES ACROSS CANADA

REITMANS	PENNINGTONS	ADDITION ELLE	RW & CO.	THYME	SMART SET	TOTAL STORES	
14	3	2	1	–	3	23	NEWFOUNDLAND
3	1	–	–	–	3	7	PRINCE EDWARD ISLAND
19	6	2	2	1	2	32	NOVA SCOTIA
13	4	3	3	1	4	28	NEW BRUNSWICK
82	27	28	17	21	39	214	QUÉBEC
111	52	38	29	25	37	292	ONTARIO
12	5	3	2	2	3	27	MANITOBA
11	6	3	2	2	2	26	SASKATCHEWAN
40	21	17	10	10	11	109	ALBERTA
36	18	6	10	6	9	85	BRITISH COLUMBIA
1	–	–	–	–	–	1	NORTHWEST TERRITORIES
1	–	–	–	–	–	1	YUKON
343	143	102	76	68	113	**845**	

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TRANSFER AGENT AND REGISTRAR
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Montreal, Toronto, Calgary, Vancouver

STOCK SYMBOLS
THE TORONTO STOCK EXCHANGE
Common RET
Class A non-voting RET.A

Une version française de ce rapport peut être obtenue en écrivant au secrétaire de Reitmans (Canada) Limitée, 250, rue Sauvé ouest, Montréal, Québec H3L 1Z2

REITMANS PENNINGTONS ADDITION ELLE RW & CO. THYME SMART SET

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